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SUBJECT: CODEL SHELBY TALKS TRADE AND SECURITY WITH NZ
OFFICIALS

REF: STATE 163811

1. (SBU) Summary: Codel Shelby met with New Zealand officials August 8-9. Discussions focused on lessons learned from New Zealand's successful effort to eliminate domestic agricultural subsidies, current state of the NZ economy, potential for a U.S.-New Zealand FTA and the need to promote foreign investment, New Zealand's contribution to regional security, and the country's increasing concerns over infrastructure gaps in energy and transportation. Economic Development Minister Jim Anderton hosted dinner for the CODEL in Christchurch on August 8. In Wellington on August 9, the CODEL met with Opposition leader Don Brash (and shadow Foreign Minister Lockwood Smith), Acting Prime Minister Michael Cullen, officials from the Reserve Bank, Defense Minister Mark Burton and Trade Minister Jim Sutton. They also had lunch with the top civil servants in the Foreign Affairs and Trade, Defense and Justice Ministries and the External Assessments Bureau (NSC equivalent). End Summary.

2. (SBU) Economic Development Minister Jim Anderton hosted Senator Richard C. Shelby, Dr. Annette Shelby, Representative Robert E. "Bud" Cramer and Senate Banking staffer Kathy Casey for an August 8 dinner in Christchurch with CEOs of local firms representing U.S. high tech companies. Senator Shelby commented on how he had seen New Zealand evolving during previous official and private visits, as a result of the tough economic reforms introduced by the Lange Government in the mid-1980s. Anderton concurred that the reforms had helped shield New Zealand from the results of the Asian economic downturn and the recent slowdown in the U.S. economy. However, he said the current government felt that some of the reforms might have gone too far. Anderton cited as an example the consolidation of New Zealand banking under a handful of Australia-owned banks. The Minister said he had pushed to set up "Kiwibank," a postal banking alternative intended to ensure that banking services were available in every community in New Zealand. Kiwibank was now turning a small profit and was, in his view, forcing the other banks to offer a greater range of services. Anderton also said the Clark Government was looking at whether labor laws had tipped the balance of economic benefits too much toward employers.

3. (SBU) The Minister made a pitch for a U.S.-New Zealand Free Trade Agreement, noting concern that the U.S.-Australia FTA would divert investment from New Zealand to Australia. Senator Shelby said the Congress was well disposed toward New Zealand and still generally favored bilateral free trade agreements. The "unfinished business" (i.e., NZ's ban of nuclear-propelled or armed vessels calling at its ports) was a complicating factor, but the Senator said he expected negotiations with New Zealand to happen "eventually." Charge suggested that in the meantime, there was a great deal New Zealand could do to promote foreign investment. Anderton agreed, explaining that the GoNZ was working to streamline the Resource Management Act and other investment approval legislation to make them more "friendly" to both foreign and domestic investors. Anderton's spouse, a Christchurch City Councilwoman had a good side exchange with Rep. Cramer, comparing community development in the Canterbury region with the growth of Huntsville, Alabama, in the Congressman's district.

4. (SBU) Opposition Leader Don Brash and National Party spokesman for Foreign Affairs Lockwood Smith told CODEL that the current government's economic policies and defense priorities were resulting in New Zealand falling farther and farther behind the standard of living of Australia and many other OECD countries. They raised the negative impact of the anti-nuclear legislation on New Zealand's Defense Forces, but offered little hope that the New Zealand public would be willing to see the legislation scrapped. Senator Shelby noted the importance the United States attaches to efforts by Australia and New Zealand to maintain peace and stability in the South Pacific.

5. (SBU) CODEL's meeting with Finance Minister and acting PM Michael Cullen centered on the history of the Lange Government's economic reforms, in particular the scrapping of agricultural subsidies. Cullen explained the necessity of

the reforms and agreed with Minister Anderton's assessment that they might have gone too far in some areas. With respect to agricultural subsidies, Cullen said he had been heartened by the progress made on agriculture at the recent WTO Council meeting in Geneva. Senator Shelby agreed that progress on ag subsidies was essential to a successful Doha Round, but said he hoped the U.S. would not be required to get rid of its subsidies "cold turkey" as New Zealand had done. Minister Cullen opined that it would be a lot easier politically to hide behind the WTO in ratcheting down domestic agricultural support.

16. (SBU) Cullen also gave a brief overview of the current state of New Zealand's economy, stressing the important role of domestic investment, especially in residential construction. He cited energy security and upgrading transport infrastructure as the major questions that could impede future growth. The Minister also outlined how New Zealand's superannuation fund, a social security supplement, would work to address the increased fiscal demands posed by an aging population. Senator Shelby said social security reform would be a tough issue, but one that would require rapid action by the incoming Congress after the U.S. elections. Senator Shelby and Rep. Cramer had an instructive exchange with Cullen (who is often Labour's floor manager) contrasting party discipline in the New Zealand parliament with the freedom and power accorded individual members of the U.S. Congress, and of the Congress in general relative to the Executive Branch.

16. (SBU) The CODEL met for nearly an hour with NZ Reserve Bank Deputy Governor Adrian Orr and Special Advisor Bruce White. Orr and White reviewed the Reserve Bank's bank supervision role, and discussed how the Bank maintained price stability despite a fairly overheated domestic economy. Orr also went over the results of New Zealand's privatization program, a key element of the mid-1980's economic reforms. He explained that a few sectors were still state-owned, including most education, health, electricity production and distribution, rail lines and the national air carrier, Air New Zealand.

17. (SBU) Over lunch with senior civil servants, the CODEL discussed New Zealand's regional security concerns and contributions. Defense CEO Graham Fortune outlined defense spending priorities and discussed the 2003 reorganization of the New Zealand Defense Forces. MFAT CEO Simon Murdoch and External Assessments Bureau Advisor Hessel Baas identified regional security concerns in the South Pacific, focusing particular attention on governance issues in some of the Pacific Island States. Justice CEO Belinda Clark reviewed her Ministry's efforts at capacity building in the island states.

18. (SBU) At the Defense Ministry, Senator Shelby thanked Defense Minister Burton for New Zealand's contribution to the war on terror, noting in particular the efforts of Kiwi troops in Afghanistan and the combat engineering contingent in Iraq. Burton reviewed New Zealand's upgrade planes for its navy and its P-3 Orion ocean surveillance fleet. The Minister said a major component of the latter project would be done by a firm in Birmingham, Alabama. The Senator congratulated Burton, who is also Tourism Minister, on the successful tourism promotion campaign linked to the movie series "Lord of the Rings." The Minister said he had been very pleased by the increase in tourism sparked by the movies and subsequent ad campaign.

19. (SBU) Trade Minister Sutton outlined for the CODEL what had transpired at the WTO General Council Meeting in Geneva at the end of July. The Minister said he was greatly encouraged by the negotiating framework that had been agreed. He complimented Tim Grosser, NZ's Ambassador to the WTO and Chair of the Agriculture Negotiating Group for the leadership he had exercised. Sutton also expressed his admiration for Ambassador Zoellick's contribution to moving the framework forward. Senator Shelby said he was delighted to see a framework that would allow the Doha Round to proceed. He and Rep. Cramer expressed their strong support for continued trade liberalization, though both noted how hard it was to convince some industries that they could compete globally.

110. (SBU) Comment: The visit left the CODEL's interlocutors with a clearer understanding of the role of the Congress in American politics and of the hurdles NZ might face in trying to get a free trade agreement, a very helpful outcome from the Embassy's perspective.
Swindells